

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SSO-00 TRSE-00 AID-05 OPIC-03 PM-03

NSC-05 SP-02 SS-15 L-03 H-02 NSCE-00 USIE-00 INRE-00

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 9334

INFO SECDEF WASHDC

C O N F I D E N T I A L NEW DELHI 8112

SECDEF FOR DSSA FOR MCCARTHY AND COL LAWRENCE

E.O. 11652: GDS

TAGS: MASS, IN, US

SUBJ: PEACE INDIGO - REL-REEVES

REF: NEW DELHI 8036

1. VIPIN KHANNA, LOCAL AGENT FOR REL-REEVES (RR), CAME IN JUNE 19 TO TELL US THAT THE MINISTRY OF DEFENSE HAD JUST PUT A "TEMPORARY FREEZE" ON ITS CLAIM FOR PAYMENT OF THE PEACE INDIGO BANK GUARANTEE. WE IMMEDIATELY TELEPHONED THE FNCB REPRESENTATIVE WHO CONFIRMED THAT THIS WAS THE CASE. ACCORDING TO KHANNA THE FREEZE WILL REMAIN IN EFFECT UNTIL THE DISCUSSIONS BY THE GOI AND RR ARE CONCLUDED. WE EXPRESSED PLEASURE AT THIS DEVELOPMENT AND ASKED KHANNA TO PROVIDE SOME BACKGROUND ON THE REASONS FOR THE APPARENT CHANGE IN GOI THINKING. KHANNA ATTRIBUTES THE REVERSAL TO HIS MEETINGS WITH THE PRIME MINISTER ON JUNE 11 AND WITH DEFENSE MINISTER SWARAN SINGH ON JUNE 16. THE PRIME MINISTER REPORTEDLY TOLD KHANNA THAT SHE HAD AN OPEN MIND ON THE SUBJECT AND THE DEFENSE MINISTER PROMISED TO HEAR OUT RR BEFORE CANCELLING

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THE CONTRACT. IT TOOK SOME TIME, HOWEVER, ACCORDING TO

KAHNNA, FOR THE WORKING LEVEL (JOINT SECRETARY ANANDAKRISHNA) TO PICK UP THE CHANGE IN SIGNALS. THIS EXPLAINED, HE SAID, THE JOINT SECRETARY'S VIGOROUS EFFORTS ON JUNE 17 AND 18 TO COLLECT THE BANK GUARANTEE. KAHNNA SAID HE SPOKE TO ANANDAKRISHNA AND DEFENSE SECRETARY KOHLI LATE ON THE 18TH AND PERSUADED THEM TO DELAY COLLECTION OF THE GUARANTEE.

2. ACCORDING TO KHANNA, THE RR TEAMS JUNE 18 PRESENTATION WAS CONSIDERED "OUTSTANDING" BY WORKING LEVEL DEFENSE MINISTRY OFFICIALS. THE NEXT STEP WILL BE PRESENTATION OF THE RECORD OF THAT MEETING ALONG WITH THE MINISTRY'S RECOMMENDATIONS TO THE HIGH LEVEL GOI STEERING COMMITTEE WHICH MADE THE ORIGINAL DECISION TO CANCEL THE CONTRACT WITH RR. KHANNA CLAIMS THAT THE MINISTRY HAS ALREADY REACHED A PRELIMINARY DECISION AS FOLLOWS:

IN RETURN FOR GOI ACCEPTANCE OF THE NEW RR DELIVERY SCHEDULE (AUGUST 29 THROUGH DECEMBER 31, 1975) RR WILL BE GIVEN 90 DAYS NOTICE BY THE GOI UNDER THE TERMS OF ITS CONTRACTS. THE NOTICE WILL BE GIVEN ON OR ABOUT JUNE 30 AND AT THE SAME TIME THE GOI WILL REQUEST AN EXTENSION OF THE BANK GUARANTEE. AT THE END OF THE 90-DAY PERIOD THE GOI WILL EVALUATE RR'S PERFORMANCE ON BOTH THE STATIC AND THE MOBILE PROJECTS AND DETERMINE WHETHER EITHER OR BOTH SHOULD BE CANCELED AND THE GUARANTEES PAID. RR WILL BE REQUIRED TO RENOUNCE ITS RIGHT TO ANY LEGAL ACTION TO HALT PAYMENT OF THE GUARANTEES AT THAT TIME.

3. ACCORDING TO KHANNA, THE STEERING COMMITTEE MEETING SHOULD TAKE PLACE EARLY NEXT WEEK. HE EXPECTS THAT THE MINISTRY'S RECOMMENDATION WILL BE ACCEPTED OVER THE PROTESTS OF THOSE GOI AGENCIES ADVOCATING DOMESTIC PRODUCTION OF THE PEACE INDIGO EQUIPMENT.

4. WE ASKED KAHNNA TO KEEP US INFORMED OF DEVELOPMENTS AND TO LET US KNOW IF ANY EMBASSY ASSISTANCE WAS REQUIRED. SCHNEIDER

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